

# **REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE DELMAS LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Delmas Local Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

### **The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Delmas Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

8. I was unable to confirm or verify by alternative means the completeness and existence of land and buildings, infrastructure and community assets to the value of R79 916 103 disclosed in note 6 to the financial statements as the assets register did not have any unique numbers/barcodes or descriptions identifying the assets.

### **Qualified opinion**

9. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Delmas Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Statements of GRAP and in the manner required by the MFMA.

### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Non-compliance with applicable legislation**

##### **Municipal Finance Management Act**

10. Section 127(5)(a)(i)(ii) of the MFMA requires that the annual report which is tabled in the council must be made public and local communities must be invited to make submissions on the report. Evidence for compliance could not be provided.

#### **Governance framework**

11. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

#### **Internal control deficiencies**

12. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. No.	Basis for qualified opinion	CE	RA	CA	IC	M
8	Property, plant and equipment		2	5		1

13. Ongoing monitoring and supervision are not undertaken to enable an assessment of the internal control over financial reporting.

<b>Legend</b>	
<b>CE = Control environment</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Key governance responsibilities

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	Y	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting		N

No.	Matter	Y	N
	from the audit.		
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	Y	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	Y	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	Y	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>• The municipality had an audit committee in operation throughout the financial year.</li> <li>• The audit committee operates in accordance with approved, written terms of reference.</li> <li>• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	Y	
		Y	
			N
7.	Internal audit		
	<ul style="list-style-type: none"> <li>• The municipality had an internal audit function in operation throughout the financial year.</li> <li>• The internal audit function operates in terms of an approved internal audit plan.</li> <li>• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	Y	
		Y	
			N
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		N
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	Y	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	Y	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		N
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	Y	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	Y	
14.	SCOPA resolutions have been substantially implemented.	Y	
<b>Issues relating to the reporting of performance information</b>			

No.	Matter	Y	N
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		N
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		N
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Delmas Local municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68/87 of the MFMA).	Y	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	Y	

15. Although the audit committee has been operational throughout the year, the fulfilment of its responsibilities for the year was to a large extent hampered by the non-existence of the internal audit unit, through which the committee functions. Management's failure to deliver on its side has also contributed to the audit committee's failure to operate effectively.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

16. I was engaged to review the performance information.

### **The accounting officer's responsibility for the performance information**

17. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA).

### **The Auditor-General's responsibility**

18. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
19. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

#### **Internal auditing of performance measurements**

21. The Delmas Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA. The internal audit processes and procedures did not include assessments of the extent to which the Delmas Local Municipality's

performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators. The internal auditors of the Delmas Local Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

### **Lack of adoption or implementation of a performance management system**

22. The Delmas Local Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

The roles, responsibilities and accountabilities for the under-mentioned areas are not clear, documented and communicated to all relevant staff.

- Developing and evaluating output performance measures;
- Collecting, coordinating and compiling performance information;
- Ensuring data integrity and quality assurance over performance information;
- Monitoring and managing data measurement and reporting processes;
- Reporting sufficient and appropriate information to stakeholders.

### **Performance information not received in time**

22. An assessment could not be performed of the reliability of the reported performance information, as set out on pages xx to xx of the annual report, since the information was not received in time for audit purposes.

### **APPRECIATION**

23. The assistance rendered by the staff of the Delmas Local Municipality during the audit is sincerely appreciated.

*Auditor-General,*  
Nelspruit

30 June 2010



AUDITOR-GENERAL  
SOUTH AFRICA

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